

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

***Report from Tesla, Inc., on Status of Project
Pursuant to Resolution No. 19-SM008***

Tuesday, August 17, 2021

Prepared By: *Ashley Emery, Program Manager*

SUMMARY

On March 20, 2018, the CAEATFA Board approved Resolutions No. 17-SM003 and No. 18-SM004 approving two sales and use tax exclusion (“STE”) awards for Tesla, Inc.’s (“Tesla”) expansion of its manufacturing facility for the production of its Model 3 vehicle. On April 16, 2019, the CAEATFA Board approved Resolution No. 19-SM008 for a third STE award for Tesla’s Model 3 manufacturing facility. All three resolutions require that Tesla update the CAEATFA Board in writing and in person every four months for three years with regard to the following:

1. Progress in meeting its production goals.
2. Progress in improving the health and safety at its facilities.
3. Providing an updated Legal Status Questionnaire.

Tesla has met the three-year reporting requirements for Resolutions No. 17-SM003 and No. 18-SM004 and will provide the last report under Resolution No. 19-SM008 at the March 2022 Board meeting.

Attached is Tesla’s eleventh written report pursuant to these resolutions.

ATTACHMENTS

Attachment A: Tesla’s eleventh written report pursuant to Resolution No. 19-SM008
Attachment B: The staff report for Resolution No. 19-SM008 from the April 16, 2019, Board meeting

**Attachment A: Tesla, Inc.'s Eleventh Written Report Pursuant to
Resolution No. 19-SM008**

Tesla Update for CAETFA Board Meeting

Provided on October 26, 2021

1. Production and Delivery Update - For Q3 2021, Tesla produced and delivered the following number of fully electric vehicles:
 - a. Model 3/Y
 - i. Delivered 232,025
 - ii. Produced 228,882
 - b. Model S/X
 - i. Delivered 9,275
 - ii. Produced 8,941

2. California Update - We're happy to report that we broke ground on our Megafactory, a new battery storage manufacturing facility in Lathrop, California. Megapack represents massive energy storage that can transform the way utilities operate the grid in a cleaner, more reliable way. Each container-sized unit can store up to 3 MWh of capacity. and we can scale these units to provide giga-scale capacity to help utilities replace natural gas "peaker" power plants with a cleaner, cheaper solution that can store excess solar or wind energy and discharge it when the grid needs it the most. Global demand for Megapack is far outstripping supply and, within a few short years, we hope to be producing 40GWh at this facility to help meet this demand. Much of this demand is coming from California utilities like PG&E, with whom we partnered to build the 183 MW Moss Landing storage project, which is expected to save PG&E ratepayers over \$100M over the life of the project.

3. Employee Health and Safety Update (EHS)
 - a. We continue to hold vaccination clinics on-site at Fremont, including for COVID booster shots. We have vaccinated over 10,000 associates and continue to make sure everyone has access to vaccines free of charge. Moreover, we continue to provide 16 hours of vaccine sick pay for associates. Many of our COVID-19 precautions remain in place.
 - b. To date, our recently implemented "Take Charge" program has been very successful. This program provides an easy way for associates to provide (anonymously, if desired) ideas and identify or help correct hazards proactively, before incidents can occur. Since the full roll out of the program at Fremont, we have received over 25,000 suggestions and approximately 70% have been reviewed. Employees receive email feedback on the resolution of non-anonymous suggestions. As our "Take Charge" numbers go up (employees

- engaged in the safety process and actively looking to identify and reduce risks), we are confident injuries will continue to decline.
- c. We have recently formed a dedicated EHS training team focused primarily on hands-on training for critical safety programs.
 - d. We implemented an innovative model for workplace health that takes a more holistic approach to injury management and employee health. By balancing the need for services most efficiently provided 'in house' with direct access to medical expertise in the local community, this approach ensures employees receive the right level of medical expertise, clinical quality, and reliable care. The objective is to better meet the needs and experience of our employees and operations. We will also use this experience as a model for similar Tesla facilities around the world.
 - e. October 25-29 is EHS & Security week across Tesla. This week we celebrate our EHS& Security successes, provide educational events, vendor fairs, and have fun.
 - f. We continue to implement Process Change Authorization process (PCA) to ensure EHS considerations are included as part of any process change (e.g., production, materials, etc.). We completed risk maps in all major departments and are focused on reducing at least the top five critical risks, including ergonomic risks.
 - g. The Fremont factory remains a gold zero-waste to landfill site. We are also in the process of installing a 1 MW solar array on our main Fremont factory building, as well as our other Fremont facilities, to increase our renewable energy use.

Attachment B: Tesla, Inc.'s April 16, 2019, Board Meeting Staff Report

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Resolution No. 19-SM008
Application No. 19-SM008**

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Tesla, Inc. (FKA Tesla Motors, Inc.)
Application No. 19-SM008**

Tuesday, April 16, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Tesla, Inc. (FKA Tesla Motors, Inc.)

Location – Fremont, Alameda County

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facilities (Advanced Transportation)

Value of Qualified Property – \$81,906,653

Estimated Sales and Use Tax Exclusion Amount² – \$6,847,396

Estimated Quantifiable Net Benefits – \$463,318

Application Score³ –

Fiscal Benefits Points:	933
<u>Environmental Benefits Points:</u>	<u>135</u>
Net Benefits Score:	1,068
<u>Additional Benefits Points:</u>	<u>38</u>
Total Score:	1,105

Staff Recommendation – Approval, pursuant to continued reporting conditions as outlined in Resolutions No. 17-SM003 and No. 18-SM004

¹ All capitalized terms not defined in this document are defined in the Program's statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.36%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

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THE APPLICANT

Tesla, Inc. (FKA Tesla Motors, Inc.) (“Tesla” or the “Applicant”) was incorporated in 2003 in Delaware and is headquartered in Palo Alto, California. Tesla designs, manufactures, and sells electric vehicles and electric vehicle powertrain components. Tesla’s products include the Model S sedan, the Model X crossover, the Model 3, the Model Y SUV, the Semi truck, and previously included the Roadster, which concluded production at the end of 2012. Tesla is a publicly traded company on the NASDAQ under the symbol TSLA.

The major shareholders (10.0% or greater) of Tesla, Inc. are:
Elon Musk

The corporate officers of Tesla, Inc. are:

Elon Musk, CEO
Zack Kirkhorn, CFO
Jeffrey B. Straubel, CTO
Jerome Guillen, President of Automotive

BACKGROUND

Tesla has benefited from seven previous STE awards, the first of which was granted by CAEATFA on October 28, 2009, prior to the establishment of the existing STE Program, for up to \$320 million for the equipment and tooling required for the production of its Model S sedan and for powertrain components it manufactured for Daimler AG and, previously, for the Tesla Roadster. This award represented an estimated \$26 million in STE. Tesla completed the purchase of this equipment.

The second Tesla award was granted by CAEATFA on December 13, 2011 for up to \$292 million for equipment and tooling required for the development and production of the Tesla Model X and the expansion of manufacturing activities for electric vehicle powertrain components, including those sold to Toyota. This award represented an estimated \$24 million in STE. Tesla completed the purchase of this equipment.

The third Tesla award was granted by CAEATFA on December 17, 2013 for up to \$415 million for equipment and tooling required for the expansion of Model S manufacturing capabilities, the expansion of electric vehicle powertrain production, and the continuous development of the Model S program for future electric vehicle development. This award represented an estimated \$35 million in STE. Tesla completed the purchase of this equipment.

The fourth Tesla award was granted by CAEATFA on December 15, 2015 for up to \$463,625,000 for equipment and tooling required to expand the production of its Model S and Model X electric vehicles. This award represented an estimated \$39 million in STE. Tesla completed the purchase of this equipment.

In late 2015, Tesla submitted an application for approximately \$1.17 billion in Qualified Property for an estimated STE amount of \$98 million to purchase equipment and tooling to develop its latest model at the time, the Model 3. During that same time, because the STE

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Program was oversubscribed for the first time in Program history, and AB 199 had recently passed as an urgency statute adding recyclers to the Program, the CAEATFA Board voted to suspend accepting and considering new applications until regulations to evaluate projects eligible under AB 199 became effective. At the time, Staff modified regulations, adding competitive criteria that would apply when the Program was oversubscribed, placing a per applicant cap of \$20 million per year while allowing large projects to be eligible for any exclusions remaining at the end of the calendar year, adding a requirement that 15% of the Qualified Property be purchased in the first year of the award as an indicator of readiness (this provision became established in the contracts and cannot be waived by the Board), and prioritizing recycling projects in the short term.

In 2016, CAEATFA re-opened the STE Program, and on December 13, 2016, Tesla was granted its fifth award by CAEATFA for the purchase up to \$560,917,080 in Qualified Property of the requested amount of approximately \$1.17 billion, which was the remainder of the \$100 million STE annual cap for 2016.

Because the fifth award only represented 48% of Tesla's request, the Company applied for a sixth award under the 2017 calendar year allocation. However, since the sixth application was submitted after Program regulations were revised to impose a \$20 million cap in STE per applicant, per calendar year, Tesla was limited to receiving \$20 million in STE, with the possibility of receiving additional financial assistance if any STE remained at the end of the calendar year. On January 17, 2017, Tesla received its sixth award of \$20 million in STE, with the ability to seek more at the end of the year. On December 19, 2017, the Board approved Tesla for the sales and use tax exclusion remaining for 2017 after all other applications were considered. This amounted to a sales and use tax exclusion value of approximately \$4,192,540, but because of the changes to the project estimates since the application was initially considered, new legal disclosures, and the short time Staff had to review the application, the award was conditional, providing Staff with more time to review the necessary information. On March 20, 2018, pursuant to Program regulations, Tesla was approved for the remaining STE to its sixth award amendment, which increased the STE amount from \$20 million to \$24,192,540, subject to additional reporting as described below.

Additionally on March 20, 2018, Tesla was granted its seventh award for the Model 3 Project for up to the \$20 million 2018 annual cap in STE, thus fulfilling approximately 93% of its initial request. Due to concerns at that time specific to Tesla's production timetable and raised by stakeholders and in the media specific to health and safety, the sixth and seventh award were subject to additional reporting by Tesla to the Board – in person and in writing every four months – with updates in regard to the following:

- Progress in meeting its production goals
- Progress in improving the health and safety at its facilities
- Providing an updated Legal Status Questionnaire

Subsequently, Tesla has been providing regular reports to the Board on its progress and continuing to work with stakeholders. As of September 2018, Tesla has reported approximately \$239,113,950 in Qualified Property purchases (99.9% of the total Qualified Property Amount approved).

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The current Application to be considered is for the remainder of the initial Model 3 Project request of \$1.17 billion in Qualified Property, which is approximately \$82 million in Qualified Property, anticipated to result in just over \$6.8 million in STE.

A list of the awards provided to Tesla to date can be found in Attachment A.

THE PROJECT

Tesla is requesting an STE award to expand its body shop, stamping line, vehicle assembly, plastics shop, production control, tooling, and prototyping to design and manufacture its Model 3 electric vehicle (the “Project”). On March 31, 2016, Tesla unveiled the Model 3, a lower-priced sedan designed for the mass market, with a starting base price of \$35,000. Pre-orders for the Model 3 were accepted, and the Applicant represents that Model 3 deliveries began in July 2017.

Tesla anticipates spending approximately \$1.17 billion to support the design, development, and prototyping of the Model 3, primarily to expand its factory in Fremont. Tesla represents the Project will launch the first phase of production on the Model 3 and provide the capacity to produce and deliver approximately 250,000 units per year once the Project is ramped, in addition to its Model S and Model X production. Tesla also represents that production of the Model 3 will support an additional 4,113 new manufacturing jobs. The current projections in the Application are consistent with the most recent information provided to investors.

As noted above, the current Application to be considered is for the remainder of the initial Model 3 Project \$1.17 billion Qualified Property request, anticipated to result in just nearly \$82 million of Qualified Property, estimated at \$6.8 million in STE.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases for the total Model 3 Project are listed below:

Tooling	\$ 3,431,597
Body Shop Equipment	26,300,045
Vehicle Assembly Equipment	19,955,912
Fremont Material Flow	11,262,365
Press Equipment	5,595,753
Paint Shop	5,945,594
Returnable Packaging	1,049,025
Seat Assembly	2,450,986
Manufacturing Test Equipment	2,238,304
Plastic Shop Equipment	1,678,728
Facility Improvements	1,159,196
Seat Frame Welding Line	839,148
Total	<u>\$81,906,653</u>

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Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Tesla represents that equipment orders began in early 2016 and that the Applicant began delivering Model 3 vehicles to customers as of July 2017. According to the Applicant, the Project initially faced delays due to production bottlenecks stemming from issues encountered at the Applicant's Gigafactory 1, where the battery packs for Tesla's vehicles are assembled, and later with its general assembly line in Fremont. Tesla represents that although production was slow in ramping up, it has overcome these challenges and was able to stabilize Model 3 production at high volumes as of mid-2018. Tesla reports that the Fremont facility is past the steep portion of the production S-curve, and expects the production rate to continue to gradually improve. Tesla represents that it anticipates purchasing all Qualified Property for the Project by the end of Q1 2020.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$81,906,653 and the total quantifiable net benefits are valued at \$463,318 for the Project. The Project received a Total Score of 1,105 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 135 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (933 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant which amounts to an estimated \$6,385,369, resulting in a Fiscal Benefits score of 933 points for the Project.
- B. **Environmental Benefits (135 points)**. The Project will result in an estimated \$925,345 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 135 points for the Project. These benefits derive from the manufacturing of electric vehicles since these vehicles deliver a net

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reduction in energy consumption and CO₂ emissions relative to a comparable gasoline powered vehicle.

- C. **Additional Benefits (38 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 38 additional points.
1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 4,113 permanent jobs at its Facility. CAEATFA estimates that approximately 10 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Permanent Jobs Score of 30 points for the Project.
 2. **Non-CA Environmental Benefits (8 of 40 points)**. The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at \$103,271, resulting in a Non-CA Environmental Benefits Score of eight points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Permits and necessary approvals for the Project have been obtained.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$327,626.61.

RECOMMENDATION

As noted above, Tesla has been regularly reporting to the Board pursuant to Resolutions No. 17-SM003 and No. 18-SM004 on its progress in meeting its production goals and health and safety issues, and during this time has demonstrated positive improvements in these areas. For consistency in implementing the award and continued transparency, Staff recommends conditional approval of Resolution No. 19-SM008 for Tesla, Inc.'s (FKA Tesla Motors, Inc.) purchase of Qualified Property in an amount not to exceed \$81,906,653, anticipated to result in

⁴ California Code of Regulations Title 4, Division 13, Section 10036

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an approximate sales and use tax exclusion value of \$6,847,396, subject to the following conditions, which will be included in the Master Regulatory Agreement between the Authority and the Applicant:

1. Tesla agrees to continue to update the CAEATFA Board in writing and in person every four months with regards to the following:
 - a. Progress in meeting its production goals.
 - b. Progress in improving the health and safety at its facilities.
 - c. Providing an updated Legal Status Questionnaire.
2. This reporting will be in addition to the Applicant's semi-annual reporting to CAEATFA, with the first report due at the July 16, 2019 Board meeting and subsequent reports due every four months thereafter for three years.

Attachment A

Board Meeting	Project	QP Approved Amount	QP Amount Reported	STE Amount (Anticipated)	STE Used to Date	Estimated Environmental Benefit	Estimated Fiscal Benefit	Estimated Net Benefit	Expected Total Jobs	Expected Total Jobs from STE	Project Status
10/28/2009	Model S	\$320,000,000	\$320,000,000	\$26,600,262	\$26,600,262	N/A	N/A	N/A	1,400	N/A	Complete
12/13/2011	Model X	\$292,000,000	\$291,889,330	\$23,652,000	\$24,546,045	\$2,386,636	\$35,023,610	\$13,758,246	1,237	108	Complete
12/17/2013	Model S Expansion	\$415,000,000	\$414,840,044	\$34,735,500	\$34,929,532	\$4,847,406	\$54,306,869	\$24,418,775	2,050	115	Complete
12/15/2015	Models S and X Expansion	\$463,625,000	\$463,622,420	\$39,037,225	\$39,037,008	\$4,766,289	\$61,843,129	\$27,572,193	1,439	41	Complete
12/13/2016	Model 3	\$560,917,080	\$560,917,080	\$47,229,218	\$47,229,218	\$7,883,861	\$46,343,056	\$6,997,699	1,585	80	Complete
1/17/2017	Model 3	\$287,322,328	\$287,322,316	\$24,192,540	\$24,113,805	\$2,796,551	\$20,997,523	-\$398,467	1,011	43	Complete
3/20/2018	Model 3	\$239,234,449	\$239,113,950	\$20,000,000	\$19,989,926	\$2,581,524	\$19,018,169	\$1,599,693	842	36	Active
Current Total:		\$2,578,098,857	\$2,577,705,340	\$215,446,745	\$216,445,796	\$25,262,268	\$237,532,355	\$73,948,140	9,564	423	
4/16/2019	Model 3	\$81,906,653	\$0	\$6,847,396	\$0	\$189,329	\$1,306,468	\$94,796	842	2	Pending
Potential Total:		\$2,660,005,510	\$2,577,705,340	\$222,294,141	\$216,445,796	\$25,451,597	\$238,838,823	\$74,042,936	10,406	425	

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RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH TESLA, INC. (FKA TESLA MOTORS, INC.)

April 16, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Tesla, Inc. (FKA Tesla Motors, Inc.)** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$81,906,653 over a period of three years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

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Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved with the recommended changes set forth as conditions one and two in the staff recommendation on this matter. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. Tesla shall update the CAEATFA Board in writing and in person every four months with regards to the following: (1) progress in meeting its production goals; (2) progress in improving the health and safety at its facilities; and (3) an updated Legal Status Questionnaire. This reporting will be in addition to the Applicant's semi-annual reporting to CAEATFA, with the first report due at the July 19, 2019 Board meeting and subsequent reports due every four months thereafter for three years.

Section 11. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.